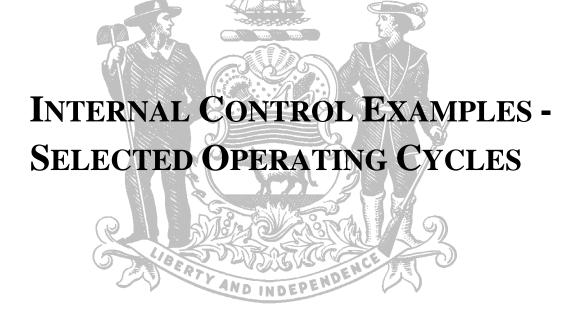
#### STATE OF DELAWARE

### OFFICE OF AUDITOR OF ACCOUNTS



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#### OBJECTIVES, POTENTIAL ERRORS AND CONTROL ACTIVITIES FOR AGENCY CYCLES

The following pages provide examples of control objectives, potential errors and control activities for related agency cycles.

These are only suggestions and the objectives can be modified to meet specific agency operations. Control activities and potential errors listed are not all inclusive. Although some selectivity in choosing objectives is expected, care should be taken that all meaningful objectives are considered.

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#### A. STRATEGIC PLANNING CYCLE

	<b>Objective</b> :	<b>Potential Errors:</b>		<b>Control Activities:</b>
1.	The mission of the agency should be consistent with laws, regulations, gubernatorial and management's policy.	<ul><li>1a. Management may be subject to legal or disciplinary action for unauthorized use of funds or other resources.</li><li>1b. Resources may be illegally or</li></ul>	1.	Agency mission statement, developed in accordance with laws and regulations, which is approved by management and legal counsel.
		ineffectively used.		
		1c. Administration and/or legislative goals may not be achieved.		
2.	The missions of the agency's units should be consistent with the overall mission of	2a. Violation of law and regulation.	2.	Individual unit mission statements, approved by management, should be
	the agency.	2b. Organizational operations not in accordance with mission.		consistent with the overall agency mission statement.
		2c. Conflicting agency and unit goals and programs.		
3.	The missions of the agency and its units should be	3a. Operations not in accordance with mission.	3a.	Written mission statements.
C	documented and	3b. Inefficient or ineffective	3b	. Dissemination of mission statements.
	personnel.	operations.	3c.	Training of personnel in mission and objectives.

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## 4. Plans and budgets should be developed on both a long-range and short-range basis; they should be consistent with the missions of the agency and its units.

#### **Potential Errors:**

- 4a. Mission goals not implemented.
- 4b. Operations not effective and efficient.
- 4c. Budgets not in accordance with agency goals.
- 4d. Failure to achieve long-range goals.

- 4a. Operating, budgeting, accounting and management personnel develop long and short-range plans, related to budgets and budget requests.
- 4b. Monitor results against plans and budgets.

- 5. Policies and procedures should be defined and communicated to ensure that the agency achieves the objectives defined in its plans and budgets.
- 5a. Operations not in accordance with mission.
- 5b. Operations that do not achieve objectives.
- 5c. Operations are inefficient.
- 5d. Potential fraud, waste and abuse.
- 5e. Policies and procedures conflict.

- 5a. Policies and procedures are defined and communicated to all levels of the organization.
- 5b. Policies and procedures are periodically reviewed and revised.
- 5c. Periodic internal or external reviews of policy and procedure implementation.

- 6. Systems for establishing, monitoring, and reporting the results of agency activities should be defined and implemented.
- 6a. Actual operations not in accordance with plans.
- 6b. Future plans and budgets are inaccurate.
- 6c. Illegal or improper activities are carried out by the organization or its personnel.
- 6a. Reporting systems integrating financial, program and other data are utilized to inform management at all levels of results of activities.
- 6b. Results are compared to plans and budgets and variations investigated.
- 6c. Plans and budgets are revised to recognize actual results.

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#### 7. The results of agency activities should be reported to management, the

Governor, the Legislature and the public.

#### 8. An internal audit or review function should be maintained, which is organizationally independent and adequately staffed.

9. Report and information included in data systems are substantiated and evaluated.

#### **Potential Errors:**

- 7a. Operations of the agency are not understood.
- 7b. Operations are not in accordance with law and regulation.
- 7c. Budgets required for adequate operations are not approved.
- 8a. Operations are not in accordance with law, regulation, executive or agency policies.
- 9a. Reporting of results is incorrect.
- 9b. Resources are not controlled.
- 9c. Improper or illegal actions taken based on incorrect information.

- 7a. Annual reports, containing financial and non-financial results, to the Governor, Legislature and the public.
- 7b. Budget vs. actual reports to management.
- 7c. Budget requests include prior actual results.
- 8a. Internal auditor is independent, consistent with criteria established by the Institute of Internal Auditors.
- 8b. Independent external audits are performed.
- 9a. Periodic internal and/or external audits are performed.
- 9b. Data, reports, etc. are reviewed by operating personnel periodically.
- 9c. Annual certifications of reports are required.

#### **B. BUDGET CYCLE**

	<b>Objective</b> :	<b>Potential Errors</b> :	<b>Control Activities:</b>
1.	The agency's budget should be developed in accordance with the missions of the	1a. Budget approved is not adequate to meet goals.	Mission statements are included in budget.
	agency and its units.	1b. Budget approved is excessive compared to actual needs.	1b. Budget is based on effective program measures.
		Operations conducted are not properly authorized.	1c. Budget is reviewed and approved by management.
		1d. Budget submissions are rejected.	
2.	The budget should be authorized in accordance with laws, regulations and management's policy.	<ul><li>2a. Budget is not, in fact, properly authorized.</li><li>2b. Unauthorized programs are</li></ul>	2a. Budget approval process throughout agency is documented.
		implemented.	2b. Authorizations required are documented.
			2c. Controls are implemented to verify that approvals are obtained.
3.	The agency budget should be developed in accordance with the State Office of the	3a. Budget is rejected in approval process.	3a. The Agency uses approved procedures, forms, etc.
	Budget and agency 31 management policy and procedures.	3b. Budget is "illegal" or improper.	3b. Budget system is used to accumulate budget data on an organizational and
		3c. Budget request does not properly inform management	programmatic basis.
		of programs planned.	3c. Budget procedures are subject to independent audit.

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- 4. Planned program results should be in accordance with laws, regulations and management's policy and plans.
- 5. Programs should be planned in an economical and efficient manner.

- 6. Actual information for previous periods included with the budget should be taken from or reconciled to reliable financial and management information reporting systems.
- 7. The budget information developed from the lowest levels of the organization are promptly classified, summarized and reported.

#### **Potential Errors:**

- 4. Budgeted programs are not in accordance with agency mission.
- 5. Waste, abuse and illegal acts can occur.

- 6a. Future budget is incorrect.
- 6b. Management, the State Budget Office and the Legislature are not properly informed.
- 7a. See 6a and 6b above.
- 7b. Programs and operating managers are not properly informed or involved in budget process.

- 4a. Budget requests are related to laws, regulations and mission statements.
- 4b. Management reviews budget request support.
- 5a. Budget procedures require program managers to supply "efficiency" data that are measurable.
- 5b. Program operating procedures are reviewed as part of budget process.
- 6a. Actual data are provided from financial accounting and management information systems.
- 6b. Internal audits of the actual data included in budget.
- 7a. Automate budget system where possible.
- 7b. Consistent procedures are used by all levels of the organization.
- 7c. Defined time table is followed.
- 7d. Originator verifies budget data submitted.

	Objective:		Potential Errors:		<b>Control Activities</b> :
8.	Changes made to budget submissions by the State Office of the Budget and		Budget vs. Actual reports are incorrect.	8a.	Budget and/or financial personnel monitor budget revisions. Report of
	Legislature should be controlled and reconciled with final budgets.	8b.	Overspending occurs because agency personnel are unaware of budget changes.		Legislative committees is reviewed by agency management.
			onanges.	8b.	Final budget used for expenditure control is approved by the State Office of the Budget and provided to agency management personnel.
				8c.	Operating personnel are informed of budget changes.
No	te: The following represent star	ewi	de concerns:		
9.	Approved final budgets should be properly entered into appropriate agency systems and state accounting systems.	9.	See 8a and 8b above.	9.	See 8a to 8c above.
10.	Allocations made by the	10a	. Expenditures not properly	10a	a. Automated budget system

- 10. Allocations made by the State Office of the Budget should be properly accounted for and reconciled with overall appropriations.
- 10a. Expenditures not properly controlled.
- 10b. Overspending may occur.
- 10c. "Proper" expenditures delayed because of incorrect reporting.
- 10a. Automated budget system is used to control appointments.
- 10b. Management reviews and approves actual vs. budget reports.

Objective:		<b>Potential Errors:</b>		<b>Control Activities:</b>
11. Budget reports should be prepared accurately, promptly and on a consistent	11a.	Management not properly informed of budget and actual performance.	11a.	Automated budget systems are used.
basis that adequately presents information.	11b.	Incorrect management decisions made.	11b. Budget and accounting systems are properly interfered.	_
	11c.	Budget approvals are "invalid".	11c.	Reporting procedures are defined and communicated.
12. Detail budget dete chould be	120		120	
12. Detail budget data should be properly controlled and accounted for and reconciled	12a.	Individual operations overspend or under-spend.	12a.	Periodic internal and/or external audits.
with final appropriations.	12b.	Adverse impact on overall agency mission.	12b.	Management approves allocations are properly reflected in systems.
			12c.	Verify final budget data is accurately transferred to accounting systems.

#### C. HUMAN RESOURCES CYCLE

	<b>Objective</b> :	<b>Potential Errors</b> :	<b>Control Activities:</b>
1.	The appointment, change and termination of all employees should be	1a. Employees improperly or illegally hired.	1a. Personnel office responsible for recruiting applicants.
	authorized in accordance with current personnel	1b. Hiring is in excess of need.	1b. Supervisors interview or assist in selecting new
	regulations and policy.	1c. Employees are not properly qualified.	employees.
		1d. Terminated employees remain on payroll resulting in excessive costs.	1c. Personnel office is notified of employees who are terminated or resign.
			<ol> <li>Employee qualifications are verified before they begin work.</li> </ol>
			1e. Probationary periods are used to monitor newly appointed employees.
2.	Adjustments to personnel records should be authorized in accordance with laws,	2a. Incorrect or improper adjustments made.	2a. Procedures for adjustments are documented and followed.
	regulations, and management's policies.	2b. Incorrect reporting of costs.	2b. Managements review adjustments.
			2c. Adjustments are reported to employees and other affected personnel.
3.	Only those requests to assign employees that are within	3a. Labor improperly used.	3a. Personnel utilized in accordance with program
	budgetary limits and that meet management's program	3b. Program goals not met.	budgets.
	or other criteria should be approved.	3c. Payroll costs of programs exceed limits.	3b. Personnel requests periodically reviewed.

	Objective:	<b>Potential Errors</b> :	<b>Control Activities:</b>
4.	Each personnel transaction should be based on properly approved records, be accurately prepared and be appropriately authorized.	<ul><li>4a. Personnel transactions are not approved.</li><li>4b. Personnel exceed ceilings.</li><li>4c. Illegal personnel actions occur.</li></ul>	<ul> <li>4a. Transactions periodically verified to support documentation.</li> <li>4b. Personnel data periodically confirmed with employees.</li> <li>4c. Personnel files controlled and access limited.</li> </ul>
5.	Personnel transactions should be accurately and promptly classified, summarized and reported in financial records in accordance with budget, program, and pay and personnel regulations.	<ul><li>5a. Personnel exceed ceilings.</li><li>5b. Program costs are incorrect.</li><li>5c. Payrolls are not properly reported.</li><li>5d. Third party reimbursements are incorrect.</li></ul>	<ul> <li>5a. Accounting for payrolls paid is done promptly.</li> <li>5b. All accounting entries verified to registers, etc.</li> <li>5c. Payroll distributions are reported to supervisors and managements.</li> <li>5b. Costs are compared to budget and prior year.</li> </ul>
6.	Personnel transactions are properly reflected in the detailed records.	<ul> <li>6a. Detail records disagree with control accounts.</li> <li>6b. Errors are not corrected.</li> <li>6c. Payroll cost details incorrect.</li> <li>6d. Program reporting incorrect.</li> <li>6e. Management unaware of true costs.</li> </ul>	<ul> <li>6a. Detail records and accounts are routinely reconciled to control accounts.</li> <li>6b. Detail records are posted promptly.</li> <li>6c. Independent verification of reconciliations.</li> <li>6d. Report of each pay period's</li> </ul>

6e. Costs compared to budgets.

transactions made is issued and reviewed by supervisors.

	Objective:	Potential Errors:	<b>Control Activities:</b>		
7.	Personnel transactions should be properly authorized.	<ul><li>7a. Improper or incorrect entries to data bases made.</li><li>7b. Reporting is incorrect.</li></ul>	<ul><li>7a. Report of each pay period's transactions is issued and reviewed by supervisors.</li><li>7b. Regular closing schedule</li></ul>		
			followed.		
8.	Recorded balances of personnel data, and related transaction activity, should	8a. Leave accrual balances are incorrect.	8a. Accrual balances should be reported to employees, supervisors and management.		
	be periodically substantiated and evaluated.	8b. Reporting of cumulative earnings incorrect.	8b. Cumulative earnings should be reported to employee.		
			8c. Standard procedure for reporting and correcting errors.		
9.	of personnel, records, critical	<ul><li>9a. Records are lost, altered, etc.</li><li>9b. Laws are violated.</li></ul>	9a. Physical access controls are in place.		
	forms, processing areas and processing procedures should be permitted only in accordance with laws, regulations and management's policy.	<ul><li>9c. Incorrect data are reported for management or other use.</li></ul>	9b. Documents are numbered, where possible.		
		for management of other use.	9c. Reports are numbered where possible		
			9d. Procedures are established by management.		
Note: The following represent Statewide concerns:					
10.	Personnel procedures should be established and maintained in accordance	10a. Improper and/or inconsistent procedures followed resulting in:	10a. Documented procedures approved by management.		
	with laws, regulations and management's policy.	errors in processing, incorrect reporting, abuse, and violations of law.	10b. Regular review and update of procedures.		
			10 - D 1: - : 1 1/		

10c. Periodic internal and/or

external audit.

#### **Objective: Potential Errors: Control Activities:** 11. Positions should be 11a. Positions established could 11a. Follow formal procedures identified, described and be: In excess of need, and to request new positions. classified in accordance with improperly described. laws, regulations and 11b. Personnel office management's policy. 11b. Personnel hired for independently classifies positions using acceptable positions may not be evaluation techniques. properly qualified. 11c. Payroll costs may be 11c. Management requests excessive. Office of the Budget to establish positions. 12. Positions should be properly 12a. Positions are created and 12a. All positions require funded in accordance with approval of Office of the personnel hired for which management's policy and there is no funding. State Budget. budgetary constraints. 12b. Positions created and 12b. All positions are identified personnel hired for in or related to the agency's "permanent" positions that budget submission. only have temporary funding (i.e., grants). 12c. All "temporary" positions are evaluated for long-term 12c. Positions and personnel requirements. exceed requirements and management's goals. 12d. Unfunded positions are abolished.

12e. All positions are within

available.

personnel targets set by the State Office of the Budget and costs are within dollars

Objective:		<b>Potential Errors:</b>		<b>Control Activities:</b>
13. Compensation should be in accordance with currently established rates and	13a.	Personnel are paid improperly.	13a.	Compensation rates are established after proper review and evaluation of
regulations.	13b.	Payroll costs are excessive.		responsibilities, competition for personnel,
	13c.	Employees are dissatisfied and leave, causing unnecessary turnover.		budget constraints, union negotiations, etc.
			13b.	Compensation scales are made public.
			13c.	Management approves compensation levels.
14. Personnel cycle should be efficient and effective.	14a.	Process does not accomplish all objectives. Excessive costs are incurred in operating the	14a.	Use automated systems to process transactions where possible.
		personnel systems.	14b.	Standard procedures and forms are designed to
	14b.	Funds needed for program use must be used to pay for		expedite processing.
		personnel operating costs.	14c.	Costs of processing transactions are determined and reported.

#### D. PAYROLL

	Objective:		<b>Potential Errors</b> :		<b>Control Activities:</b>
1.	Payroll deductions are in accordance with employee authorizations.	1a.	Payroll deductions are incorrect.	1a.	Deduction forms, rates, etc., are documented and approved.
				1b.	Periodic internal and/or external audits.
2.	Adjustments to payroll disbursements, employee accounts and account distribution should be authorized in accordance with pay regulations and management's policies.		Incorrect or improper adjustments made.  Incorrect reporting of costs, deductions, etc.	2a.	Procedures for adjustments are documented and followed.
		20.		2b.	Supervisory review is made of adjustments.
				2c.	Adjustments are reported to employees, other affected personnel.
3.	should be in accordance with laws, regulations, and	3a.	authorized.		Results compared to plans.
		3b.		3b.	Programs periodically reviewed against current objectives.
		3c.	Waste, abuse and illegal acts.	3c.	Periodic internal and/or external audits.

	Objective:	<b>Potential Errors</b> :	<b>Control Activities</b> :
4.	Payroll process should be efficient and effective.	4a. Process does not accomplish all objectives.	periodically assessed and costs compared to benefits.
		4b. Excessive costs are incurred in operating the processing and reporting systems.	4b. Use automated systems to process transactions where possible.
		4c. Funds needed for program use must be used to pay for processing costs.	4c. Standard procedures and forms are designed to expedite processing.
			4d. Costs of processing transactions determined and reported.
			4e. Compare detailed budgeted costs to actual costs.
5.	reported accurately, completely, timely and in accordance with budget, program, and pay and personnel regulations.  5th	5a. Employees not properly paid for time worked or paid for time not worked.	d 5a. Time and attendance reporting utilized.
		5b. Labor costs not properly reported against budget.	5b. Supervisors review records of time reported.
		5c. Reimbursements not properly recorded.	5c. Accumulation of data properly controlled (totals, batching, etc.)
		5d. Evaluation of employees is inaccurate.	5d. Program costs compared to budgets.

5e. Periodic internal and/or external audits.

#### 6. Each payroll-related disbursement should be based on a properly approved attendance record, be accurately prepared and be appropriately authorized.

#### **Potential Errors:**

- 6a. Payrolls paid do not properly reflect time worked.
- 6b. Payroll costs exceed budget.

- 6a. Payrolls paid are verified to payroll calculations.
- 6b. Payroll checks reviewed by independent group.
- 6c. Periodic distribution of paychecks by an agency unit independent of payroll.
- 6d. Periodic internal and/or external audit.
- 7. Amounts due to, or on behalf 7a. Pay may be inaccurately or of, employees, and the accounting distribution of those amounts, should be accurately computed and properly classified, summarized and reported in financial records.
  - improperly calculated.
  - 7b. Distribution of payroll charges may be incorrect.
  - 7c. Financial and management reporting may be inaccurate.
- 7a. Accounting for payrolls paid is done promptly.
- 7b. All accounting entries verified to registers, etc.
- 7c. Control totals used to check processing.
- 7d. Predictive totals used to check overall payroll, deductions, etc.
- 7e. Variations from prior periods explained.
- 7f. Management reviews payroll reports and distribution.
- 7g. Costs compared to prior period and budget.

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# 8. Compensation for labor services, payroll disbursements and related adjustments should be properly applied to the detailed employee accounts, program records or subsidiary ledger.

#### **Potential Errors:**

- 8a. Detail records do not agree with control accounts.
- 8b. Errors are not corrected.
- 8c. Reporting is incorrect

#### **Control Activities:**

- 8a. Detail records and accounts are regularly reconciled to control accounts.
- 8b. Detail records are posted promptly.
- 8c. Independent verification of reconciliations.
- 8d. Report of each pay period's adjustments is issued and reviewed by supervisors.
- 8e. Costs compared to budgets.

- 9. Access to and maintenance of payroll and disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with laws, regulations and management's policy.
- 9a. Records are lost, altered, etc.
- 9b. Laws are violated.
- processing procedures should 9c. Incorrect data are reported be permitted only in for management or other use.
- 9a. Physical access controls are in place.
- 9b. Documents are numbered, where possible.
- 9c. Reports are numbered, where possible.
- 9d. Procedures are established by management.

Note: The following represent Statewide concerns:

- 10. Payroll processing procedures should be established and maintained in accordance with laws, regulations and management's policy.
- 10a. Improper procedures followed resulting in:
  Errors in processing, incorrect reporting, abuse or illegal acts and violations of law.
- 10a. Documented procedures approved by management.
- 10b. Regular review and update of procedures.
- 10c. Internal and external audits.
- 10b. Management unaware of payroll procedures.

Objective:	<b>Potential Errors:</b>	<b>Control Activities:</b>
11. Payroll journal entries related to payroll and labor distribution should be	11a. Improper or incorrect entries are made.	11a. Report of each pay period's adjustments is issued and reviewed by supervisors.
properly authorized.	11b. Reporting is incorrect.	11b. Regular closing schedule
	11c. Payroll cost details are incorrect.	followed.
	11d. Program reporting is incorrect.	
	11e. Management is unaware of true costs.	
12. Tax and other related information derived from payroll activities should be	12a. Tax data of employees is incorrect.	12a. Tax reports regularly scheduled.
accurately and promptly reported to appropriate authorities. (This applies mainly to those agencies that	12b. Agency or individual employees incur tax penalties or interest costs.	12b. Tax reports reviewed by management.
do not use the State payroll system to pay their employees.)	12c. Laws violated.	12c. Tax information reported to employees.

#### E. PROCUREMENT CYCLE

	Objective:		<b>Potential Errors</b> :		<b>Control Activities:</b>
1.	Procurement cycle processing procedures should be established and maintained in accordance with laws, regulations and management's policy.	1b.	Procedures may be implemented that circumvent existing laws, regulations or policies.  Transactions may not be processed.  Waste, abuse or illegal acts could occur.		Clear statement of procedures; for example:  - Policy manuals Procedures manuals Training routines Supervisory requirements Systems and program documentation.
				lb.	Periodic comparison of actual processing procedures with documentation and authorization.
2.	Vendors should be authorized in accordance with laws, regulations and management's policy.	2.	Purchases may be made from unauthorized vendors, and cash may be intentionally or unintentionally dispersed to an unauthorized party (i.e., a vendor who did not provide the goods or services being paid for).	2a.	Clear statements of criteria (e.g., only vendors who offer volume discounts will be approved, only vendors who warrant their products will be approved, only vendors who have State commodity contracts can be used, etc.)
			Purchases may be made from related parties without the knowledge of management.	2b.	Information concerning approved vendors is controlled, e.g., approved vendor file and/or vendor
	20	2c.	Purchases may be made from vendors in violation of regulations, e.g. barred providers.	2c.	Established procedures for adding to, changing or deleting from the approved vendor files.

3. The types, estimated quantities, and prices and terms of goods and services needed should be authorized in accordance with laws, regulations and management's policy.

#### **Potential Errors:**

- 3a. The purchasing function may order goods and services that are not needed.
- 3b. Unauthorized prices may be paid for goods and services.
- 3c. Goods may be purchased that do not meet quality standards.

- 3a. Clear statements of criteria; for example:
  - Competitive bids are to be solicited for all purchases over a stated amount, and the lowest bid will be accepted providing the vendor can meet the specified terms and quality standards.
  - The quality of goods ordered must meet stated specifications.
  - Appropriate advertising.
  - Defined procedures for use of State contracts.
- 3b. Documented and enforced procedures for review and approval of long-term supply contracts prior to execution.
- 3c. Centralized purchasing function to control the issuance of all orders to vendors for goods and services.

### 4. Adjustments should be authorized in accordance with laws, regulations and management's policy.

#### **Potential Errors:**

- 4a. Payable and related accounts may be misstated because of incorrect adjustments or incorrect reclassification of distributed amounts.
- 4b. Unsupported debit and credit adjustments may be issued to increase amounts due to one or more vendors, or to divert disbursements to other than the named vendors.
- 4c. Duplicate payments may be made (e.g., a computer-prepared check may follow a manually prepared check).

- 5. Procurement procedures should be efficient and effective.
- 5a. Program does not accomplish all objectives.
- 5b. Excessive costs are incurred in operating the processing and reporting systems.
- 5c. Funds needed for program use must be used to pay for processing costs.
- 5d. Adverse publicity.

- 4a. Clear statements of criteria and policies, including policies on returning goods, partial payments, settling disputed items, taking cash discounts, etc.
- 4b. Regular reporting and periodic analyses of trends in amounts and types of adjustments.
- 4c. Independent personnel to investigate the need for, and to initiate, adjustments.
- 4d. Authorization of adjustment forms by a specified official in the absence of, or in contradiction of, established written policies.
- 5a. Results are periodically assessed and costs compared to benefits.
- 5b. Automated systems used to process transactions, where possible.
- 5c. Standard procedures and forms designed to expedite processing.
- 5d. Costs of processing transactions determined and reported.
- 5e. Detail costs per budget compared to actual costs.

#### **Potential Errors:**

#### **Control Activities:**

approving requests.

6a. Documented procedures for

initiating, reviewing and

- 6. Only those requests of vendors for goods or services that meet management's criteria should be approved.
- 6a. See 2 and 3 above.
- 6b. Numbered critical forms and accountability for such forms.
- 6c. Periodic inspection of used critical forms for proper completion and authorized signatures.
- 6d. Executive management approval for certain types of transactions (e.g., purchase for unusually large amounts, capital expenditures, etc.)

- 7. Only appropriately ordered goods and services should be accepted.
- 7a. Any of the following may be received and ultimately paid for, rather than returned or refused:
  - Unordered goods or services.
  - Excessive quantities or incorrect items.
  - Canceled orders.
  - Duplicate orders.
  - Goods or services with unacceptable quality specifications.
- 7b. Services may be received by personnel who have no authority to order them (e.g., consulting services and magazine subscriptions).

- 7a. Closely supervised central receiving locations that are separate from shipping, purchasing and storing functions.
- 7b. Purchase order forms that are preprinted with the receiving location and that instruct vendors to deliver only to such location.
- 7c. Preparation of a receiving document for each shipment received (e.g., receiver, marked copy of bill of lading).
- 7d. Detailed comparison of goods received to a copy of the purchase order.

### 8. Goods and services accepted should be accurately and promptly included in any related financial records.

#### **Potential Errors:**

- 8a. Goods and services may be received but not reported or reported inaccurately; this could result in a misstatement of inventory and costs or in unrecorded liabilities.
- 8b. Perpetual inventory records may be posted incorrectly, causing operating problems.
- 8c. Cutoffs may be handled incorrectly; this could result in unrecorded liabilities.

- 8a. Numbered and controlled receiving documents that are subsequently accounted for as being sent to, or received by, an order-checking or accounts payable function.
- 8b. Maintenance of a receiving log sequentially listing each receiving document.
- 8c. Batch balancing, logging, and hash totals to provide reasonable assurance that all receipts have been posted to master files or otherwise accounted for.
- 8d. Documented procedures for receiving room cutoffs (daily and period end).

## 9. Amounts due to vendors for goods and services accepted, and the accounting distributions of such amounts, should be computed and recognized as liabilities promptly.

#### **Potential Errors:**

- 9a. Liabilities may be recorded for goods or services billed but not received.
- 9b. Liabilities may be recorded at incorrect amounts due to clerical errors, incorrect prices, incorrect terms, etc.
- 9c. Liabilities for goods or services received may not be recorded.
- 9d. Accounting distributions may be incorrect.
- 9e. Interest charges for late payments can be incurred.

- 9a. Verification of invoiced quantities, prices and terms by reference to the purchase order and receiving report and documentation of the verification (e.g., initialing stamped block on voucher).
- 9b. Verification of extensions and footings of invoices and documentation thereof.
- 9c. Use of receiving logs or receiving report numbers to ascertain that each receipt is recognized as a liability within the appropriate period of time.
- 9d. Batch balancing and logging techniques to control vouchered invoices.
- 9e. Independent review and follow-up on items that have incurred interest charges.

10. Amounts due to vendors should be accurately and promptly classified, summarized and included in any related financial records.

#### **Potential Errors:**

- 10a. Inputs to general ledger accounts may be incomplete (e.g., selected vouchers may be excluded from the appropriate summaries intentionally or as a result of errors).
  - Inputs to general ledger accounts may be inaccurate (e.g., clerical errors may be made in postings or footings).
  - Unauthorized, duplicated or erroneous data may be entered in a summary (e.g., a voucher may be listed twice).
  - Timing problems may develop (e.g., an insurmountable backlog of vouchers or disbursements may result in a failure to record all liabilities or disbursements in the proper period).
- 10b. Reports may be inaccurate with respect to the classification of transactions (e.g., selected general and administrative expenses may be incorrectly classified as manufacturing overhead) or the periods in which events occurred.

- Documented processing, cutoff and period-end closing procedures.
- 10b. Documented charts of accounts.
- 10c. Batch totaling and logging of input documents (number of documents and amounts) and reconciling batch totals to the total of the resulting check and voucher registers.
- 10d. Maintenance of logs at receiving locations.
- 10e. Investigation of breaks in the numerical sequence of critical forms submitted for summarizing.
- 10f. Reconciliation of the critical forms used to those registered.
- 10g. Periodic physical inventories of stocks of critical forms and reconciliation to control records.

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#### **Potential Errors:**

- 11. Purchasing adjustments should be accurately and promptly classified, summarized and reported.
- 11a. See 10 above.
- 11a. See 10 above.

- 12. Liabilities incurred, and related adjustments, should be accurately applied to the proper vendors' accounts.
- 12a. The detail posted to the subsidiary ledger accounts or records may not agree with the total activity that should be posted.
- 12b. Detail activity may be incorrectly posted in the subsidiary ledger and decisions made on the basis of incomplete or inaccurate information in the subsidiary record or ledger.
- 12a. Validation tests to verify postings (e.g., key verification, check digits in vendors' numbers and comparison of vendor account numbers to table of valid account numbers).
- 12b. Batching and reconciling input totals (e.g., vendors' invoices and cash disbursements) to processing totals and new balances forwarded.
- 12c. Reconciling subsidiary ledger balances to general ledger balances or other control totals on a regularly scheduled basis.
- 12d. Reconciliation of vendors' statements with the accounts payable subsidiary ledger.

#### **Potential Errors:**

- 13. Recorded balances of accounts payable, and related transaction activity, should be periodically substantiated and evaluated.
- 13a. Reports may not fairly present what they purport to display.
- 13b. Critical decisions may be based upon erroneous information.
- 13c. Some errors and omissions in physical safeguarding, authorization, and transaction processing may go undetected and uncorrected.
- 13d. Open purchase orders may not be accurate.

- 13a. Policy statements, procedures manuals, organization charts and/or other documentation.
- 13b. Techniques used to detect errors and omissions.
- 13c. Techniques used to provide reasonable assurance that recorded balances are evaluated.
- 13d. Periodic verification of outstanding purchase orders.

# 14. Access to purchasing, receiving and disbursement records; critical forms; processing areas; and processing procedures should be permitted only in accordance with management's criteria.

#### **Potential Errors:**

- 14a. Records may be destroyed or lost, resulting in an inability to prepare reliable financial and operating reports.
- 14b. Records may be misused or altered by unauthorized personnel.

- 14a. Safes, locked cabinets, secure tape and disk library and off-site backup storage for records, computer files, and programs and related documentation.
- 14b. Controlled custody and numbering of critical forms (e.g., blank checks, purchase orders, signature plates, master file change forms, vouchers, check requests), including periodic accounting for such forms by independent personnel.
- 14c. Segregation of responsibilities and restriction of access.
- 14d. Periodic internal and/ or external audits.

#### F. OTHER DISBURSEMENT CYCLES

	Objective:		<b>Potential Errors:</b>		<b>Control Activities:</b>
1.	Disbursement processing procedures should be established and maintained in accordance with laws, regulations and management's policy.	1b.	Procedures may be implemented that circumvent existing laws, regulations, and policies.  Transactions may not be processed.  Waste, abuse and illegal acts could occur.		Clear statement of procedures; for example:  - Policy manuals Procedures manuals Training routines Supervisor requirements Systems and program documentation.  Periodic comparison of actual processing procedures
					with documentation and authorization.
2.	Disbursements should be authorized in accordance with laws, regulations and management's policy.	a. Disbursements may be made to unauthorized vendors, and cash may be intentionally or unintentionally dispersed to an unauthorized party (i.e., a vendor who did not provide the goods or services being	2a.	Clear statements of policy (e.g., only vendors who offer volume discounts will be approved, only vendors who warrant their products will be approved, etc.).	
			paid for).	2b.	Approved vendor file and/or vendor master file.
				2c.	Established procedures for adding to, changing or deleting from the data bases.

## 3. Adjustments to disbursements and account distributions should be authorized in accordance with laws, regulations, and management's policy.

#### **Potential Errors:**

- 3a. Payable and related accounts may be misstated because of incorrect adjustments or incorrect reclassification of distributed amounts.
- 3b. Unsupported debit and credit adjustments may be issued to increase amounts due to one or more vendors, or to divert disbursements to other than the named vendors.
- 3c. Duplicate payments may be made (e.g., a computer-prepared check may follow a manually prepared check).

- 3a. Clear statements of policies.
- 3b. Regular reporting and periodic analyses of trends in amounts and types of adjustments.
- 3c. Independent personnel to investigate the need for, and to initiate, adjustments.
- 3d. Authorization of adjustment forms by a specified official in the absence of, or in contradiction of, established written policies.
- 3e. Audit for proper discounts upon preparation of vouchers of checks.

- 4. Disbursement procedures used to create, recognize and report events and related transactions should be efficient and effective.
- 4a. Program does not accomplish all objectives.
- 4b. Excessive costs are incurred in operating the processing and reporting systems.
- 4c. Funds needed for program use must be used to pay for processing costs.
- 4d. Adverse publicity.

- 4a. Results are periodically assessed and costs compared to benefits.
- 4b. Automated systems used to process transactions, where possible.
- 4c. Standard procedures and fors designed to expedite processing.

#### **Potential Errors:**

- 5. Only those requests for disbursements that meet management's policy should be approved.
- 5a. See 2 and 3 above.
- 5a. Documented procedures for initiating, reviewing and approving requests.
- 5b. Numbered critical forms and accountability for such forms (e.g., number check-off sheets).
- 5c. Periodic inspection of used critical forms for proper completion and authorized signatures.
- 5d. Periodic internal and/or external audits.

- 6. Disbursements should be accurately and promptly included in the financial records.
- 6a. Disbursements may be made but never reported or reported inaccurately; this could result in a misstatement of expenses or liabilities.
- 6c. Cutoffs may be handled incorrectly; this could result in misstated liabilities.
- 6a. Numbered and controlled documents that are subsequently accounted for as being sent to, or received by, an order checking or accounts payable function.
- 6b. Batch balancing, logging and hash totals to provide reasonable assurance that all disbursements have been posted to master files or otherwise accounted for.
- 6c. Documented cutoff procedures.

appropriately authorized.

### 7. Each disbursement should be accurately prepared and be

#### **Potential Errors:**

- 7a. The wrong amount may be disbursed.
- 7b. Disbursements may be fraudulent.
- 7c. Duplicate payments may be made.
- 7d. Checks may be fraudulently altered.
- 7e. Disbursements may be made for goods and services never received or in advance of receipt.
- 7f. Disbursements may be made without management's knowledge.

- 7a. Numbered and controlled critical forms (e.g., vouchers, check requests, adjustment forms, and checks).
- 7b. Perforation, voiding, safeguarding or otherwise canceling source documentation to prevent reuse (e.g., vouchers, invoices and adjustment forms).
- 7c. Restricted access to check signing equipment and signature plates.
- 7d. Reconciliation of the total of checks signed (by batch, by day or by week) with totals authorized.
- 7e. Established procedures for recording, voiding, explaining and disposing of voided checks.
- 7f. Segregation of check preparation and check signing functions.
- 7g. Reconciliation of number of checks written during a period with the totals on the check-signing matching counting device.
- 7h. Periodic reconciliation of the amount of unpaid vouchers with the balance reflected in the control account.
- 7i. Segregation of duties; for example:
  - Voucher posting from invoice order checking.
  - Check preparation from voucher posting.
  - Mailing of signed checks from check preparation.
- 7j. Reconciliation of totals of signed checks by batch with total charges to vouchers payable.

## 8. Disbursements and related adjustments should be accurately and promptly classified, summarized and reported.

#### **Potential Errors:**

- 8a. Inputs to general ledger accounts may be incomplete (e.g., selected vouchers or disbursements may be excluded from the appropriate summaries intentionally or as a result of errors).
  - Inputs to general ledger accounts may be inaccurate (e.g., clerical errors may be made in postings or footings).
  - Unauthorized, duplicated or erroneous data may be entered in a summary (e.g., a voucher may be listed twice).
  - Timing problems may develop (e.g., an insurmountable backlog of vouchers or disbursements may result in a failure to record all liabilities or disbursements in the proper period).
- 8b. Reports may be inaccurate with respect to the classification of transactions (e.g., selected general and administrative expenses may be incorrectly classified as manufacturing overhead) or the periods in which events occurred.

- 8a. Documented processing, cutoff and period-end closing procedures.
- 8b. Documented charts of accounts.
- 8c. Batch totaling and logging of input documents (number of documents and amounts) and reconciling batch totals to the total of the resulting check and voucher registers.
- 8d. Investigation of breaks in the numerical sequence of critical forms submitted for summarizing.
- 8e. Reconciliation of the critical forms used to those registered.
- 8f. Periodic physical inventories of stocks of critical forms and reconciliation to control records.

### 9. Disbursements and related adjustments should be accurately applied to the proper vendors' accounts.

#### **Potential Errors:**

- 9a. The detail posted to the subsidiary ledger accounts or records may not agree with the total activity that should be posted.
- 9b. Detail activity may be incorrectly posted in the subsidiary ledger and decisions made on the basis of incomplete or inaccurate information.

- 9a. Validation tests to verify postings (e.g., key verification, check digits in vendors' numbers and comparison of vendor account numbers to table of valid account numbers).
- 9b. Batching and reconciling input totals (e.g., vendors' invoices and cash disbursements) to processing totals and new balances forwarded.
- 9c. Reconciling subsidiary ledger balances to general ledger balances or other control totals on a regularly scheduled basis.
- 9d. Close review of vendors' statements and prompt follow-up on past-due items, debit balances, etc.
- 9e. Reconciliation of vendors' statements with the accounts payable subsidiary ledger.

## 10. Disbursements should be summarized and classified in accordance with management's plan.

#### **Potential Errors:**

- 10a. Financial statements may be misstated due to one or more of the following:
  - Omission of selected registers or journals (e.g., one day's check register or voucher register) from the summarization made to support journal entries.
  - Omission of a journal entry.
  - Incorrect codings.
  - Duplicate journal entries.
  - Improper cutoffs.
- 10b. Budgetary control over operations may be weakened.

- 10a. Written entity-wide coding instructions (Note: These instructions might provide for preprinting a standard coding block on all critical forms.)
- 10b. Written chart of accounts containing a description of each account.
- 10c. Written procedures for requesting and approving changes in the chart of accounts.
- 10d. Assignment of responsibility for each account balance to a particular individual in the cycle.
- 10e. Budgeting and reporting according to the same chart of accounts, and analysis of significant variances between actual and planned account balances.
- 10f. Written closing procedures stating, by function, the sources to be used to prepare journal entries, cutoffs to be observed, accruals to be made and who is responsible to do what.

# 11. Recorded balances of disbursements, and related transaction activity, should be periodically substantiated and evaluated.

#### **Potential Errors:**

- 11a. Reports may not fairly present what they purport to display.
- 11b. Critical decisions may be based upon erroneous information.
- 11c. Some errors and omissions in physical safeguarding, authorization and transaction processing may go undetected and uncorrected.

- 11a. Policy statements, procedures manuals, organization charts and/or other documentation.
- 11b. Techniques used to detect errors and omissions.
- 11c. Techniques used to provide reasonable assurance that recorded balances are evaluated.

- 12. Access to disbursement records, critical forms, processing areas and processing procedures should be permitted only in accordance with management's policy.
- 12a. Records may be destroyed or lost; this could result in an inability to prepare reliable financial and operating reports.
- 12b. Records may be misused or altered by unauthorized personnel to the detriment of the entity or its vendors.
- 12a. Safes, locked cabinets, secure tape and disk library and off-site backup storage for records, computer files, and programs and related documentation.
- 12b. Controlled custody and numbering of critical forms (e.g., blank checks, purchase orders, signature plates, master file change forms, vouchers, check requests), including periodic accounting for such forms by independent personnel.
- 12c. Segregation of responsibilities and restriction of access.
- 12d. Periodic internal compliance audits.

## **Potential Errors:**

## **Control Activities:**

## G. ASSET MANAGEMENT CYCLE

	<b>Objective</b> :	<b>Potential Errors:</b>	<b>Control Activities:</b>
1.	Assets should be acquired in accordance with laws, regulations, and	1a. Unauthorized transactions may occur.	1a. Clear statements of criteria and procedures for acquiring assets.
	management's policies.	1b. Violations of laws or regulations may occur.	<ul><li>1b. Transactions are authorized by management.</li></ul>
		1c. Management may not be aware of assets that are acquired.	, ,
2.	Assets acquired should be accurately and promptly recorded in financial records.	2a. Transactions may not be recorded.	2a. Standard procedures and forms to ensure all required data elements are recorded in
		2b. Agency may not comply with laws, regulations and	inventory records.
		management policy regarding assets required to be recorded.	2b. Documented chart of accounts with each account defined.
		2c. Inaccurate inventory records.	2c. Periodic internal and/or external audits.
3.	Dispositions of assets should be recorded promptly.	3a. Transactions may not be recorded.	3a. Standard procedures and forms for reporting asset disposition.
•		3b. Inaccurate inventory records.	3b. Approval of dispositions by
		3c. Revenues received from sale of assets may not be	management.
		recorded.	3c. Periodic internal and/or external audits.

## 4. Adjustments to assets should be authorized in accordance with management's policies.

#### **Potential Errors:**

- 4a. Assets may be misstated because of incorrect adjustments.
- 4b. Adjustments may be approved that are not acceptable to management.

- 4a. Clear statements of criteria, policies and procedures regarding adjustments, for example:
  - All adjustments to correct errors must have appropriate supervisory approval.
  - All proposed adjustments must be submitted in writing, along with the appropriate supporting documentation, to the office for approval.
- 4b. Numbered and controlled adjustment forms.
- 4c. Investigation of breaks in numbered forms.
- 4d. Independent individuals to investigate the need for, and to initiate adjustments.
- 4e. Written approval of adjustments by a specific official, in the absence of, or in contradiction to established policies.

### **Potential Errors:**

- 5. Assets are afforded adequate 5a. Assets may be stolen, lost, physical security.
  - destroyed, or temporarily diverted.
- 5a. Physical barriers, e.g. locked doors, cabinets, etc., where appropriate.
- 5b. Access restrictions, e.g. signin logs, employee badges, etc., where appropriate.
- 5c. Use of identifying tags or inscribing identifying data on equipment, where appropriate.
- 5d. Standard procedures for removing and using equipment off-site.
- 5e. Periodic physical inventory.
- 5f. Periodic internal and/or external audits.

	Objective:	<b>Potential Errors</b> :	<b>Control Activities:</b>
6.	Recorded assets should be periodically substantiated and evaluated.	6a. Reports may not fairly present what they purport to display.	6a. Policy statements, procedures, manuals and other documentation.
		6b. Critical decisions may be based on inaccurate information.	6b. Design techniques to detect errors, e.g. ensure that all asset acquisitions generate a form that requires
		6c. Some record-keeping errors may have occurred.	information to be input to inventory records.
		6d. The value of some equipment may be misstated because of its condition.	6c. Periodic physical inventories by asset managers within the agency's units and/or the central asset manager.
			6d. Periodic internal and/or external audits.
7.	Asset management cycle should be efficient and effective.	7a. All objectives of the program may not be achieved.	7a. Results of the program are periodically assessed and costs are compared with
		7b. Excessive costs are incurred in managing assets.	benefits.
		7c. Funds needed for program operations may be expended on managing assets.	7b. Automated systems used to manage program, where appropriate.
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7d. Adverse publicity.

7c. Costs of managing program determined and reported.

7d. Budgeted costs compared with actual costs.

### H. LIABILITY MANAGEMENT CYCLE

	Objective:	<b>Potential Errors:</b>		<b>Control Activities:</b>
1.	Liabilities should be incurred in accordance with law, regulations and	1a. Unauthorized transactions may occur.	1a.	Clear statements of criteria and procedures for incurring liabilities.
	management's policies.	1b. Violations of laws or regulations may occur.	1b.	Transactions are authorized by management.
		1c. Management may not be aware of liabilities that are incurred.		
2.	Liabilities incurred should be accurately and promptly recorded in financial records.	<ul><li>2a. Transactions may not be recorded.</li><li>2b. Agency may not comply</li></ul>	2a.	Standard procedures and forms to ensure all required data elements are recorded in financial records.
		with laws, regulations and management policy regarding liabilities incurred.	2b.	Documented chart of accounts with each account defined.
		2c. Inaccurate accounts payable records.	2c.	Periodic internal and/or external audits.

3. Adjustments to liabilities accounts should be authorized in accordance with management's policies.

#### **Potential Errors:**

- 3a. Accounts payable may be misstated because of incorrect adjustments
- 3b. Adjustments may be approved that are not acceptable to management.

- 3a. Clear statements of criteria, policies and procedures regarding adjustments, for example:
  - All adjustments to correct errors must have appropriate supervisory approval.
  - All proposed adjustments must be submitted in writing along with the supporting documentation to the appropriate office for approval.
- 3b. Numbered and controlled adjustments forms.
- 3c. Investigation of breaks in numbered forms.
- 3d. Separate individuals to investigate the need for, and to initiate adjustments.
- 3e. Written approval of adjustments by a specific official, in the absence of, or in contradiction to established policies.

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# 4. Amounts due to creditors, and related adjustments should be accurately and

promptly classified, summarized and recorded in the financial records.

#### **Potential Errors:**

- 4a. Inputs to accounting records may not be complete, and liabilities may be misstated.
- 4b. Timing problems may develop, and transactions may not be recorded in the proper period.
- 4c. Transactions may not be classified correctly.

- 4a. Documented chart of accounts with all accounts defined.
- 4b. Written entity-wide coding instructions.
- 4c. Documented procedures, including cut-off and periodend closing.
- 4d. Periodic re-footing of registers, journals and reports.
- 4e. Periodic reconciliation of input data with output reports.

- 5. Recorded liabilities should be periodically substantiated and evaluated.
- 5a. Reports may not fairly present what they purport to display.
- 5b. Critical decisions may be based on inaccurate information.
- 5c. Some record-keeping errors may have occurred.

- 5a. Policy statements, procedures, manuals and other documentation.
- 5b. Design techniques to detect errors, e.g. reconciliation of subsidiary to control records.
- 5c. Periodic confirmation with creditors.
- 5d. Periodic internal and/or external audits.

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### **Potential Errors:**

- 6. Liability management cycle should be efficient and effective.
- 6a. All objectives of the program 6a. Results of the program are may not be achieved.
- 6b. Excessive costs are incurred in managing liabilities.
- 6c. Funds needed for program operations may be expended on managing liabilities.
- 6d. Adverse publicity.

- periodically assessed and costs are compared with benefits.
- 6b. Automated systems used to manage program, where appropriate.
- 6c. Costs of managing program determined and reported.
- 6d. Budgeted costs compared with actual costs.

### I. REVENUE/RECEIVABLE CYCLE

	Objective:	<b>Potential Errors:</b>	<b>Control Activities:</b>
1.	Receipt processing procedures should be established and maintained in accordance with laws, regulations and	1a. Procedures may be implemented that circumvent	1a. Clear statements of procedures.
		existing laws, regulations and policies.	1b. Periodic verification of the required management and
	management's policy.	1b. Transactions may not be processed.	user approvals of (a) new systems and procedures and (b) changes in systems,
		1c. Waste, abuse and illegal acts could occur.	procedures and programs. This applies to both manual and EDP systems.
			1c. Periodic verification of required supervisory approvals for reassignments of responsibilities, changes in forms, changes in filing systems, etc.
2.	from only those parties authorized in accordance	2a. Revenues may be received from wrong parties.	2a. Approved customer list, customer master file, and/or master file of charge
		2b. Revenues may be recorded incorrectly.	customers.
	<i>S</i> 1 <i>y</i>	Violation of law or regulation may occur	2b. Established procedures for making changes to the approved customer list.
3.	The amounts of receipts (license fees, tax rates, etc.) should be authorized in	3a. Receipts may be accepted at unauthorized amounts that are not acceptable to	3a. Clear statements of rates or other criteria.
	accordance with laws, regulations and management's policy.	management. It could result in overpayment or underpayment or misstatement of accounts receivable.	3b. Approved price lists, such as catalogs, to communicate prices and terms to customers and salesmen.
		3b. Receipts may be accepted that violate laws and regulations.	3c. Written statements of authorized credit and payment terms, and periodic comparison by independent personnel of authorized terms with sales invoices.

#### **Potential Errors:**

- 4. Adjustments to receipts, receivable and related records should be authorized in accordance with laws. regulations and management's policy.
- 4a. Revenue, receivables, and related accounts may be misstated because of incorrect reclassification of distributed amounts.
- 4b. Adjustments may be approved that are not acceptable to management; this could affect operating results adversely and result in dissatisfied citizens and uncollectible accounts receivable.
- 4c. Collectible accounts receivable may be written off.

- 4a. Clear statements of criteria and policies.
- 4b. Numbered and controlled standard adjustment forms requiring specified approvals.
- 4c. Routine preparation of standardized adjustment registers combined with exception reporting of adjustments over a stated amount.
- 4d. Regular reporting and periodic analyses of trends in amounts and types of adjustments.
- 4e. Separate personnel to investigate the need for, and to initiate, adjustments.
- 4f. Authorization of adjustment form by a specified official in the absence of, or in contradiction of, established written policies.

- 5. Receipt processing procedures used should be efficient and effective.
- 5a. Program does not accomplish 5a. Results are periodically all objectives.
- 5b. Excessive costs are incurred in operating the processing and reporting systems.
- 5c. Funds needed for program use must be used to pay for processing costs.
- 5d. Adverse publicity.

- assessed and costs compared to benefits.
- 5b. Automated systems used to process transactions, where possible.
- 5c. Standard procedures and forms designed to expedite processing.
- 5d. Costs of processing transactions determined and reported
- 5e. Detailed budgeted costs compared to actual costs.

#### **Potential Errors:**

- 6. Only those receipts that meet management's policy should be approved.
- 6a. See 2 and 3 above.
- 6a. Documented procedures for accepting, obtaining, reviewing and approving receipts.
- 6b. Numbered critical forms and related accountability for those forms.
- 6c. Periodic inspection of used critical forms for proper completion and authorized signatures.
- 6d. Periodic internal and/or external audits.

- 7. Each receipt should be prepared accurately and promptly.
- 7a. Incorrect receipts may be recorded; this could result in misstated cash and receivables, dissatisfied citizens and lost revenue.
- 7a. Verification and/or validation of critical data fields used to perform the billing function (e.g., product code, sales price, etc.).
- 7b. Comparison of summary receipt data with each manually prepared document, and recomputation of extensions and footings by an individual not involved in receipt preparation.
- 7c. Supervisory review of processing and reported results.

# 8. Accountability for receipts should be established before the cash can be misdirected.

#### **Potential Errors:**

- 8a. Receipts may be lost, misused or diverted resulting in an overstatement of accounts receivable.
- 8b. Sales may not be reported.
- 8c. Shortages may not be detected and may result in an overstatement of cash balances.

- 8a. Central cashier locations.
- 8b. Daily reconciliation of cash register tape totals (or other listings of amounts received) to deposit slips.
- 8c. Numbered and controlled cash remittance advances and cash receipts documents that are subsequently accounted for.
- 8d. Central mail room that lists incoming receipts for subsequent reconciliation to deposits by an employee who is independent of the cash receipts function.
- 8e. Cash control techniques, such as scheduled and frequent pickups, control totals, prelisting and reporting of receipts, required daily deposits, dual counting, surprise counts, documented and verified transfers of accountability.
- 8f. Daily report of overages and shortages.
- 8g. Segregation of duties between those who handle and list receipts and those responsible for posting customer remittances to individual customer accounts, and posting cash receipts to revenue accounts.
- 8h. Independent accounting control outside the cashier's function over miscellaneous receipts (e.g., rent, license and inspection fees, dividends, sales of scrap, etc.).

# 9. Receipts and adjustments to receipts should be accurately and promptly classified, summarized and reported.

#### **Potential Errors:**

- 9a. Inputs to revenue accounts may be incomplete.
- 9b. Inputs to revenue accounts may be inaccurate (e.g., clerical errors may be made in postings or footings).
- 9c. Unauthorized, duplicated or erroneous data may be entered in a summary.
- 9d. Timing problems may develop.
- 9e. Financial statements may be misstated due to one or more of the following:
  - Omissions of selected registers or journals (e.g., one day's cash receipts) from the summarizations made to support journal entries.
  - Omission of a transaction.
  - Misclassification of revenues.
  - Duplicate transactions posted.
  - Improper cutoffs.

- 9a. Documented processing, cutoff and period-end closing procedures.
- 9b. Documented charts of accounts.
- 9c. Written procedures for requesting and approving changes in the cart of accounts.
- 9d. Batch totaling and logging of input documents (number of documents and amounts) and reconciling batch totals to the total of the resulting register, journal, report or file update.
- 9e. Investigation of breaks in the numerical sequence of critical forms submitted for summarizing.
- 9f. Reconciliation of the critical forms used to those registered.
- 9g. Periodic physical inventories of stocks of critical forms and reconciliation to control records.
- 9h. Review and follow-up on regular backlog reports of unprocessed receipts.
- 9i. Written entity-wide coding instructions. (Note: These instructions might provide for preprinting a standard coding block on all critical forms.)
- 9j. Written closing procedures stating, by function, the sources to be used to prepare journal entries, cutoffs to be observed, accruals to be made and who is responsible to do what.

# 10. Receipts, collection on accounts, and related adjustments should be accurately applied to the proper receivable accounts.

#### **Potential Errors:**

- 10a. The detail posted to the subsidiary ledger accounts or records may not agree with the total activity that should be posted.
- 10b. Detail activity may be incorrectly posted in the subsidiary ledger.
- 10c. Decisions may be made on the basis of incomplete or inaccurate information.

- 10.a Validation tests to verify postings (e.g., key verification, check digits in customers' account numbers and comparison of account numbers to table of valid numbers).
- 10b. Batching and reconciling input totals to processing totals and new balances forwarded.
- 10c. Reconciling subsidiary accounts receivable to general ledger balances or other control totals on a regularly scheduled basis.
- 10d. Controls to prevent or detect the posting of duplicate transactions and the loss of accepted transactions (e.g., record count and dollar balance control totals).
- 10e. Review of "was-is" reports of customer account status.
- 10f. Close review of statements sent to customers and prompt follow-up on overdue invoices, unapplied credits, unapplied cash, etc.

11. Recorded balances of receipts and accounts receivable, and related transaction activity, should be periodically substantiated and evaluated.

#### **Potential Errors:**

- 11a. Reports may not fairly present what they purport to display.
- 11b. Critical decisions may be based on erroneous information.
- 11c. Some errors and omissions in physical safeguarding, authorization, and transaction processing may go undetected and uncorrected.
- 11d. While accurately reflecting historical events, recorded balances may not reflect realistic evaluations under conditions existing at a particular reporting date (e.g., realizable values may be below recorded balances).

- 11a. Policy statements, procedures manuals, organization charts and/or other documentation.
- 11b. Reconciliation of recorded balances and activities with balances and activities reported by custodians (e.g., reconciliation of recorded cash receipts with amounts shown in bank statements).
- 11c. Reconciliation of general ledger balances with subsidiary ledger balances either manually or by computer.
- 11d. Periodic verification of activity reports with underlying documentation.
- 11e. Periodic physical counts of cash and cash items and reconciliation to recorded amounts.
- 11f. Periodic independent confirmation of customer account balances.

#### **Potential Errors:**

- 12. Access to receipts should be permitted only in accordance with management's criteria.
- 12a. Receipts may be stolen, lost 12a. External storage is used or temporarily diverted.
  - (e.g., lockbox services, banks, etc.).
  - 12b. Outside services (e.g., armored car service. electronic funds transfer systems, night deposit facilities, and guard services).
  - 12c. Physical barriers (e.g., locked doors, cabinets and safes, control of keys.)
  - 12d. Access restrictions (e.g., magnetic key devices, "Do Not Enter" signs, employee badges, sign-in logs, cash registers, etc.)
  - 12e. Detection and prevention devices (e.g., fire alarms, electronic sensing and monitoring devices, and security guards).
  - 12f. Insurance and fidelity bonds.
  - 12g. Work area layouts that permit maximum visibility by supervisors, clients, guards, etc.
  - 12h. Frequent collection and prompt storage of cash.
  - 12i. Delivery of deposit items charged back by a bank as uncollectible (e.g., "insufficient funds" checks to an employee who is independent of the person making the deposit; investigation of such items

#### Objective: Potential Errors:

by this person.

- 12j. Review (by an employee who is independent of the cash receipts and accounts receivable functions) of any cash receipt items that, for one reason or another, are withheld from deposit.
- 12k. Identification of specific individuals and specific locations authorized to receive cash.
- 121. Posting of customer receivable ledgers from cash receipts listings or remittance advices, not from cash items themselves.
- 12m. No cashing of personal checks from receipts.
- 12n. No depositing of cash receipts in petty cash accounts.
- 12o. Restricted endorsement of all customer remittances by the employee who opens the mail.
- 12p. Control of all cash receipts by the cashier until deposit is made.

# 13. Access to receipts and receivable records; critical forms; processing areas, and processing procedures should be permitted only in accordance with management's criteria.

#### **Potential Errors:**

- 13a. Records may be destroyed or lost; this could result in an inability to prepare reliable and/or timely financial and operating reports or an inability to collect accounts receivable.
- 13b. Records may be misused or altered by unauthorized personnel.
- 13c. Processing capabilities, particularly computer processing capabilities, may be lost, destroyed or altered by unauthorized persons; this could result in an inability to prepare reports or the distortion of reported activities.

- 13a. Safes, locked cabinets, secure tape and disk library and off-site backup storage for records, computer files and computer programs and related documentation.
- 13b. Controlled custody and numbering of critical forms including periodic accounting for those forms by independent personnel.
- 13c. Segregation of responsibilities and restriction of access; for example:
  - Segregation of accounts receivable, cashier and accounting activities.
  - Denying access of receipts records to those persons responsible for posting to accounts receivable ledgers and the general ledger.
  - Denying access to the accounts receivable ledgers to those who authorize extension of credit or approve customer discounts, returns or allowances.

#### J. REPORTING CYCLE

Objective: Potential Errors: Control Activities:

Although these items directly apply to amounts and accounts that would normally appear on a financial statement, the concepts set forth are applicable to reporting of performance data.

- 1. Reporting should be in accordance with laws, regulations and management's policy and plans.
- 1a. Reporting is not authorized.
- 1b. Reporting is not achieved economically.
- 1c. Waste, abuse and illegal acts may occur.
- 1a. Reporting evaluated by management.
- 1b. Reports periodically reviewed against current objectives.
- 1c. Periodic internal and/or external audits.

- 2. Data entered to reporting systems should be authorized in accordance with laws, regulations and management's policy.
- 2a. Transactions may be processed that are not acceptable to management; this could result in misstated reports.
- 2b. Entries may be made for purposes of misstating account balances, concealing irregularities, etc.
- 2a. Clear statements of policy, included accounting policies.
- 2b. Documented transaction preparation policies and procedures.
- 2c. Written chart of accounts with description of each account.
- 2d. Supervisory review and approval of each nonstandard journal entry.

# 3. Reporting system processing procedures should be established and maintained in accordance with laws, regulations and management's policy.

#### **Potential Errors:**

- 3a. Procedures may be implemented that circumvent existing laws, regulations and policies.
- 3b. Computer programs may be modified to circumvent controls, to change accounting policies or to reduce safeguards over assets.
- 3c. The flow of information may be altered to withhold data from those who are entitled to receive it or to give it to those who are not.
- 3d. Data may be lost during conversions to new systems.
- 3e. Transactions may not be processed.

- 3a. Clear statement of procedures; for example:
  - Policy manuals.
  - Procedures manuals.
  - Training routines.
  - Supervisory requirements.
  - Systems and program documentation.
- 3b. Periodic verification of the required management and user approvals of (a) new systems procedures and (b) changes in systems, procedures and programs. This applies to both manual and EDP systems.
- 3c. Periodic verification of required supervisory approvals for reassignments of responsibilities, changes in forms, etc.
- 3d. Periodic comparison of actual processing procedures (and production versions of computer programs) with documentation and authorization.

#### **Objective: Potential Errors: Control Activities:**

- 4. Reporting procedures used should be efficient and effective.
- all objectives.
- 4b. Excessive costs are incurred in operating and processing and reporting systems.
- 4c. Funds needed for program must be used to pay processing costs.
- 4d. Adverse publicity.

- 4a. Program does not accomplish 4a. Reports periodically assessed and costs compared to benefits.
  - 4b. Automated computer systems used to process transactions, where possible.
  - 4c. Standard procedures and forms designed to expedite processing.
  - 4d. Alternative operations periodically considered.
  - 4e. Cost of processing transactions determined and reported.
  - 4f. Detailed budgeted costs compared to actual costs.

### 5. Only those reports that meet management's policy should be approved.

#### **Potential Errors:**

- 5a. Reports may be processed that are not acceptable to management; this could result in misstated financial statements.
- 5b. Entries may be made for purposes of misstating account balances, concealing irregularities, etc.

- 5a. Documented procedures for initiating, reviewing and approving journal entries.
- 5b. Periodic inspection of completed journal entry forms for proper completion and authorized signatures.
- 5c. Comparison of critical details of each journal entry with established criteria; this may be done manually or by computer validation techniques.
- 5d. Close supervision of employees and files by supervisory personnel.
- 5e. Periodic internal audits of journal entries.

- 6. Reports should be prepared accurately and promptly.
- 6a. Necessary entries may not be made.
- 6b. Entries may be made incorrectly.
- 6c Entries may be in the wrong period.
- 6a. Schedule or register of recurring entries (e.g. accruals, eliminations and reclassification).
- 6b. Period-to-period comparisons of amounts recurring entries.
- 6c. Check and approval of each entry by supervisory personnel who did not actively participate in its preparation.
- 6d. Batch balancing and logging techniques to provide reasonable assurance that all journal entries have been posted to master files or otherwise accounted for.
- 6e. Control totals and identification of dates, headings, etc., on reports.

#### **Potential Errors:**

- 7. Relevant disclosure data should be accurately summarized and reported.
- Supplemental disclosures may be misstated or incomplete due to omitting certain data from the summary or clerical errors in summarizing and reporting.
- 7a. Established procedures for checking (referencing) reported information to source documentation and verifying clerical accuracy by one or more individuals who did not actively participate in gathering or summarizing the underlying data.
- 7b. Reconciliation of the prior period's data and current period's activities to the current period's data.
- 7c. Written commentary on significant variations from the prior period.

- 8. File and account balances should be accurately and promptly reported.
- 8a. The reports may be misstated 8a. Standard reporting formats for due to one or more of the following:
  - Omission of general ledger balances.
  - Clerical errors.
  - Use of incorrect exchange rates.
  - Omission of or incorrect. elimination and reclassification entries.

- units.
- 8b. Regular reporting schedule and check-off sheets to compare reports received with those required.
- 8c. Standard elimination and reclassification entries.
- 8d. Established procedures for checking reports.
- 8e. Reconciliation of balances forwarded from the prior-period and current-period activities to the ending balances.
- 8f. Comparison of number and amounts of reclassification. translation and elimination entries for the current period with the prior period.

- 9. Consolidation of reports should be accomplished accurately and promptly
- 9a. See 8a above.
- 9a. See 8a to 8f above.

10. Reporting entries should classify activities in accordance with management's plan.

#### **Potential Errors:**

- 10a. Reports may not become available on a timely basis.
- 10b. Reports may be misstated due to one or more of the following:
  - Omission of selected registers or journals (e.g., one day's check register) from the summarizations made to support journal entries.
  - Omission of a journal entry.
  - Incorrect codings.
  - Duplicate journal entries.
  - Improper cutoffs.

- 10a. Written chart of accounts containing a description of each account.
- 10b. Written procedures for requesting and approving changes in the chart of accounts.
- 10c. Written agency-wide coding instructions.
- 10d. Budgeting and reporting according to the same chart of accounts, and analysis of significant variances between actual and planned account balances.
- 10e. Written cutoff and closing schedules.
- 10f. Written closing procedures stating, by function, the sources to be used to prepare journal entries, cutoffs to be observed, accruals to be made and who is responsible to do what.
- 10g. Review and approval of each entry by supervisory personnel who did not actively participate in its preparation.
- 10h. Standard journal entry register or other control to provide reasonable assurance that all required journal entries are prepared.

# 11. Reports should be prepared accurately and promptly, be prepared on consistent bases and fairly present the information they purport to display.

#### **Potential Errors:**

- 11a. Information presented may be too summarized to be useful.
- 11b. Too much detail may be presented.
- 11c. Regulatory reports may be inaccurately prepared.
- 11d. The agency may be exposed to litigation or fail to meet statutory reporting responsibilities.

- 11a. Documented policies and procedures for the preparation of all financial reports to provide reasonable assurance of consistency of preparation.
- 11b. Documented procedures for the preparation of statutory reports.
- 11c. Review of statutory reports by a party or parties independent of the preparer (e.g., internal audit personnel, supervisory personnel, legal counsel, etc.).
- 11d. Periodic surveys of the utility of reports to users.
- 11e. Control listings of reports to be issued and check-off of reports as issued.
- 11f. Periodic internal and/or external audits.

# 12. Recorded balances in the records should be periodically substantiated and evaluated.

#### **Potential Errors:**

- 12a. Reports may not fairly present what they purport to display.
- 12b. Critical decisions may be based upon erroneous information.
- 12c. Some errors and omissions in physical safeguarding, authorization and transaction processing may 12c. go undetected and uncorrected.
- 12d. While accurately reflecting historical events, recorded balances may not reflect evaluations under conditions existing at a particular reporting date (e.g., market values may be below cost).

- 12a. Policy statements, procedures manuals, organization charts and/or other documentation.
- 12b. Techniques used to detect errors and omissions, to the extent not already performed in the other cycles.
- 12c. Techniques used to provide reasonable assurance that recorded balances are realistically evaluated, to the extent not already performed in the other cycles.

#### K. GRANTS CYCLE

Objective:	<u>Potential Errors:</u>	<b>Control Activities:</b>

These objectives, risks and control techniques can be modified so they can be used on any program that provides various types of goods or services or has eligibility requirements.

1. Grant eligibility requirements 1a. Unauthorized grants are 1a. The written detail eligibility should be consistent with requirements used in the made. laws, regulations and evaluation process are management's policy. approved by management, 1b. Grant expenditures exceed budget. and general counsel. 1c. Program objectives are not 1b. Management authorizes specific personnel who can met. approve grant applications. 1d. Eligible grant recipients are denied grants. 2. Information and methods 2a. Eligible grant recipients do 2a. All information made used to publicize the not apply. available to the public is program should be approved by management and authorized in accordance 2b. Ineligible grant recipients general counsel. with laws, regulations and apply. management's policy. 2b. Publicity methods are approved by management. 2c. Unauthorized publicity occurs. 3a. Processing procedures are 3. Grant application processing 3a. See 2a to 2c above. procedures should be defined and communicated in established and maintained approved procedures in accordance with laws, manuals. regulations and management's policy. 3b. Management approves all changes to program procedures.

3c. Provides internal and/or external audits.

	Objective:		Potential Errors:		<b>Control Activities:</b>
4.	Grantee procedures for control, use and reporting of grant funded operations should be authorized in accordance with laws, regulations and management's policy.	4a.	See 2a to 2c above.		Grantee procedure models are developed and provided to grantees. Periodic audits of grantee procedures.
5.	Grant program results should be in accordance with laws, regulations and management's policy and plans.	5a.	Programs fail to meet defined objectives.	5b.	Procedures for monitoring program results are defined.  Management periodically reviews program results.  Independent audits of results.
6.	Program results should be achieved in an effective and efficient manner.	6b.	Program does not accomplish all objectives.  Program budget reduced or terminated.  Adverse publicity.	6b. 6c.	Program results are periodically assessed and costs compared to benefits.  Costs are compared to similar programs.  Detail costs per budget are compared to actual costs.  Alternative program operation is periodically considered.
7.	Procedures used to review, process and report grants and related transactions should be efficient.		Excessive costs are incurred in operating the processing and reporting systems.  Funds needed for grants must be used to pay for processing costs.	7b.	Automated systems are used to process transactions, where possible.  Standard procedures and forms are designed to expedite processing.  Costs of processing

transactions are determined

and reported.

	Objective:	<b>Potential Errors:</b>	<b>Control Activities:</b>
8.	Only those grant requests that meet the eligibility requirements should be approved.	8a. Improper grant awards are made.	8a. Grant requests are compared in detail (manual or automated) to eligibility requirements.
		8b. Eligible grant recipients are denied.	8b. Management reviews and approves large or unusual grant requests.
			8c. Reports of grants approved and disapproved are made to management.
			8d. Appeals are processed by personnel not responsible for initial review.
9.	accurately and promptly	9a. Unreported expenditures.	9a. Proper interfacing of operating and financial
		9b. Unspent funds.	systems.
		9c. Costs exceed budget.	9b. Defined reporting procedures.
			9c. Trained personnel.
			9d. Management review of program costs reports.
10.	Grants and costs of processing should be summarized each period and	10. See 9a to 9c above.	10a. Defined processing procedures.
	classified in accordance with management's policy.		10b. Processing schedule time table.
11.	Reports should be prepared accurately, promptly and on a consistent basis that adequately presents the information they purport to display.	11. See 9a to 9c above.	11a. Defined processing procedures and schedule.
			11b. Review of reports by supervisors and management.
			11c. Automated program reporting system.

	Objective:	<b>Potential Errors</b> :	<b>Control Activities:</b>
12.	Recorded data should be periodically substantiated and evaluated.	12a. See 9a to 9c above. 1	12a. Certification of reports by supervisors.
	and evaluated.		12b. Independent audits.
13.	The distribution of costs to accounts should be periodically reviewed and evaluated.	13a. See 9a to 9c above.	13a. Management review of reports.
			13b. Grant manager review of financial reports.
			13c. Independent audits.
14.	Grantee records should be periodically substantiated and evaluated.	14a. See 9a to 9c above. 14a	14a. Independent audits of grantee records.
			14b. Comparison of prior and current period grantee reports.
			14b. Comparison of grantee reports to grant terms.
15.	Comparison of grantee reports to grant terms.	15a. See 9a to 9c above.	15a. Physical safeguards such as controlled access to files and processing areas.
			15b. Identification of personnel allowed access to specific records, forms, etc.

#### L. REGULATORY CYCLE

Objective: Potential Errors: Control Activities:

This cycle is applicable to agencies that have regulatory authority over certain functions, industries,

- 1. Regulations should be promulgated and approved in accordance with laws.
- 1a. Improper or illegal regulations issued.
- 1b. Lawsuits by public, corporations, etc.
- 1a. Defined procedures for approval and issuance of regulations.
- 1b. Review of all regulations by legal counsel.
- 1c. Defined approvals required.
- 1d. Verification of approvals obtained.
- 1e. Public informed of procedures.

- 2. Enforcement and adjudication procedures should be maintained in accordance with laws, regulations and management's policy.
- 2a. Improper or illegal regulations developed and enforced.
- 2b. Lawsuits.

2a. See 1a to 1e above.

- 3. Procedures used to promulgate, issue and enforce regulations should be efficient and effective.
- 3a. Regulation does not accomplish all objectives.
- 3b. Excessive costs are incurred in enforcing regulations.
- 3c. Funds needed for other use must be used to pay for processing costs.
- 3d. Adverse publicity.

- 3a. Program results are periodically assessed and costs compared to benefits.
- 3b. Automation used where possible
- 3c. Standard procedures and forms designed to expedite processing.
- 3d. Cost of regulations issued determined and reported.

Objective:		Potential Errors:		Control Activities:		
4.	Comments to drafts of regulations should be summarized accurately, promptly and on a consistent	4a.	Improper actions taken based on inaccurate summaries.	4a.	Summaries are reviewed before final regulations are adopted.	
	basis that presents fairly the information they purport to display.	4b.	Valid comments or concerns are not addressed.			
5.	Approved regulations should be accurately and promptly reported to management and	5a.	Public misunderstands and does not comply.	5a.	Management and counsel review of publicity.	
	the public.	5b.	Increased enforcement costs.	5b.	Reports of all regulations issued are made to management.	
				5c.	Enforcement actions reports to management.	
6.	Resources used in promulgating and enforcing	6a. Costs of regulation are excessive.	6a.	Costs compared to budget.		
	regulations should be reported.			6b.	Reports of costs made to management.	